

AR43



The year 1973 marked the 40th Anniversary of Finning Tractor and Equipment Company Limited and our 40th year as a Caterpillar dealer. The results for the year set a new high for revenue and profit, the third year in succession we have achieved this record. Our revenues reached \$148,000,000, up 17% over 1972. Net income after tax rose nearly 8% to \$5,500,000, or \$1.40 a share.

Earnings did not grow at the same relative rate as in 1972 because we had to deal with a combination of adverse factors. Our effective tax rate increased from 46.5% to 51%; it was necessary to absorb very substantial wage and salary increases; our costs of borrowing money increased considerably; and machine deliveries were made on the basis of allocation from our suppliers.

Although our position in the worldwide shortage of machinery was no different than most of our competitors, it created a very frustrating situation and one in which procurement and expediting costs tended to soar.

As was pointed out in the last Annual Report, our growth over the past two years has been in a period of price stability. The price freeze in the United States, parity of the Canadian and U.S. dollars and competitive factors have held the prices of machines and replacement parts constant. The increased costs had to be absorbed within this framework.

During the year we increased our activity in equipment financing and were able to double our conditional sales contract portfolio while maintaining the level of our net lease portfolio. The success of our financial operations has materially improved our operating results and consideration is being given to the splitting out of some of our financial operations into a wholly-owned subsidiary, Finning Finance Limited. This company, recently formed, will allow us to apply the same disciplines to our financial operations as other comparable finance companies and will provide a broader base for borrowing against the future growth projected for this enterprise.

The expansion within the Caterpillar line—six new products—did not have its full impact on results because of delays in delivery. It was not until year-end that we received our initial shipments of the new D3 light industrial tractor and we are now able to aggressively pursue this market.

Major capital expenditures were made in the construction of a new Training Centre in Vancouver which will provide the specialized facilities and equipment required for the continuing training of our own employees and expanded outside training programs.

To the Shareholders

Results in Brief

(thousands of dollars)

Revenue	\$148,157
Income before income taxes ..	11,241
Net income	5,475
Capital expenditures	3,533
<hr/>	
Net income per share*	\$ 1.40
Income before income taxes as a percentage of revenue ..	7.6%
Net income as a percentage of revenue	3.7%
Number of employees at year end	1,577

*Net income per share has been calculated on the basis of the weighted average number of Common Shares outstanding during the year.

Sale of this Caterpillar 910 Wheel Loader in September marked our entry into the small machine market. The D3 tractor and 931 track loader complete Caterpillar's new line and climax several years of marketing preparation by our Light Industrial Division.



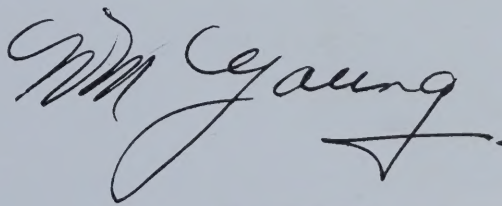
The expenditures for additions at our Terrace operation will double the effective capacity of that operation and, combined with our new facility at Houston, will put us in a favourable position to take advantage of the tremendous growth potential in the north-west corner of the province.

Five parcels of land were purchased or optioned in 1973 to allow us continued expansion in those parts of the province showing the greatest potential.

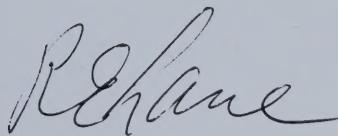
Considering the difficulties encountered during the year, the results are very satisfactory. They reflect a concerted effort on the part of everyone involved in the operation of your company.

Our major concern in 1974 is with the number of industrial labour contracts to be negotiated in British Columbia. If a series of strikes were to develop, we could be affected in many of our traditional markets. For our own part, our current contract with the International Association of Machinists and Aerospace Workers expires on November 15, 1974.

Some of the unfavourable factors affecting our business should diminish during the year and we are forecasting a year of increased revenue and profit.



W. M. YOUNG
*Chairman of the Board and
Chief Executive Officer*



R. E. LANE
*President and
Chief Operating Officer*



A change of senior management responsibilities was approved at a meeting of the Board of Directors in late October. W. Maurice Young, right, became Chairman of the Board and Chief Executive Officer; R. E. Lane became President and Chief Operating Officer.

The reorganization was brought about by the Company's growth and the resultant increase in executive duties.

Market Review

Throughout the year our sales rode the crest of the booming provincial economy. Statistic after statistic showed an increase—population, employment, gross provincial product, new capital investment—and, in an off year for contract negotiations, the number of man days lost in strikes and lockouts decreased significantly.

FORESTRY The buoyant economy was keyed by the forest industry which accounts for the major share of the Province's exports. Our sales to the forest companies remained strong for the second year as lumber prices peaked in mid-year and orders for pulp and paper reached new highs.

The industry was not without its problems, including a shortage of wood chips and rail cars in the Interior and the availability of skilled people willing to work in the woods.

CONSTRUCTION Our construction volume maintained last year's pace. The bulk of the highways work was carried over from 1972. The 500,000-kilowatt Kootenay Canal development made excellent progress towards its completion in 1974. Work began on the Mica Dam powerhouse and resulted in sales of trucks, tractors and other equipment. Extension of the British Columbia Railway from Fort St. James to Dease Lake continued and a section of the CP Rail mainline was rerouted above Mica Dam reservoir.

MINING Mining sales improved over 1972, essentially because of the replacement machine market. The value of mineral production reached nearly \$1 billion, an increase of close to 56 per cent over the previous year and the 12th consecutive year in which a production record has been attained. However, in a time of high world metal prices, no new mines were developed and exploration activity slumped 50 per cent. Some mining companies maintained a "wait and see" attitude before committing themselves to capital investment pending new provincial legislation.

PETROLEUM Exploration for oil and natural gas fields slowed in British Columbia but quickened in the Northwest Territories and our revenue there rose accordingly.

USED EQUIPMENT The used equipment market was excellent throughout the year, particularly after July when shortages forced emphasis from new to used machines. We were able to acquire late model used equipment from outside the Province to meet this increased demand and consequently, used equipment accounted for a larger portion of total volume.

NEW PRODUCTS A number of new products were introduced by Caterpillar. Some of these were extensions of traditional lines, others broaden our market diversification.

Two new products fit neatly into the "systems approach" to logging. The 528 Skidder is a bigger, more powerful companion to the 518 which was brought out in 1971. The 950 Tree Harvester,

The 950 Tree Harvester made its debut during the year in Northern Interior forests. The machine, which cuts, delimbs, tops and bunches small trees for pulpwood in a continuous operation, is the latest product in Caterpillar's "systems approach" to logging. Caterpillar now offers a machine for every operation from road building through to loading and handling in the millyard.



Huge quantities of chips were digested by busy pulp mills. Special Finning-designed blade increases spreading capacity of this Cat D8H Tractor in around the clock operations at Kitimat mill.



This unusual winch indicates ingenuity of B.C. loggers. A Prince George lumberman uses 385 horsepower Cat D9 tractor with 60 inch diameter drums replacing tracks to pull 100,000 pound log bundles up 1200 foot slope from Lake Williston.



Sales to mining were primarily replacement machines as the industry achieved record production values amid improved world prices. However, exploration activity continued to slacken.



First Cat 825B Compactor sold in Province worked on railway relocation. Eight miles of CPR mainline were rerouted 100 feet up mountain slope to detour future flooding of Mica Dam reservoir.

Caterpillar truck engine is installed at TEPS dealership in Richmond. Some 30 automotive dealers participate in Total Engine Product Support program for engines in non-Caterpillar equipment.



suited to Interior logging methods, cuts, delimbs, tops and bunches trees up to 18 inch diameter in a continuous operation.

Caterpillar's first hydraulic excavators were delivered to customers. The introductory model, the 225, is in the popular $\frac{3}{4}$ to 1 cubic yard class. Two other larger models have been announced.

Other Caterpillar products underwent major redesign. The motor grader line has many new features that provide increased productivity and reduced maintenance requirements. An improved series of lift trucks came off the production lines in 1973 and has been well accepted in the warehousing and service industries. New engines incorporating advanced design features have been announced and are scheduled for 1974 delivery.

All of these new and improved products should have a substantial effect on our 1974 marketing results.

PARTS AND SERVICE While sporadic shortages in parts supply did occur, revenue from parts and service sales rose sharply. To some extent, the lack of availability of new machines created additional requirements for parts and repair services.

Parts Department expenses were higher than normal. Greatly increased inventories were carried in anticipation of a labour shut-down at Caterpillar which, although of short duration, did occur and our procurement costs were up as we tapped all available sources to fill our customers' needs.

The number of Parts Department employees increased during the year; 38 partsmen were enrolled in the Province's first parts apprenticeship program which we initiated in September.

With completion of the 1973 capital expenditure program, the Company now has more than 219,500 square feet of floor space devoted to repair and overhaul of machines and components. A minimum of 175 machines can be accommodated in the repair bays of our major operations and depots. Total mechanical strength reached 742, of whom 100 were apprentices. Trained mechanics were again in short supply but we obtained our share, or better, of the available manpower.

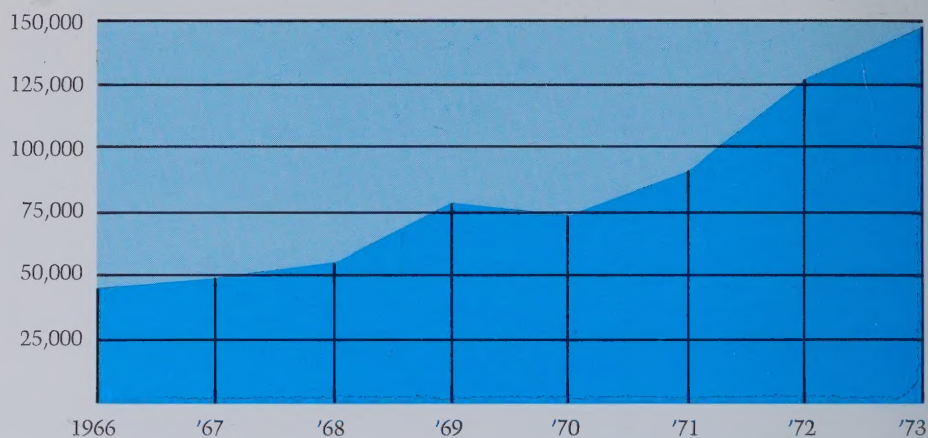
We were active all year in selling Total Service Concept repair and maintenance programs to gain maximum utilization of our specialized facilities and specialist personnel. The good growth is an indication of increasing customer acceptance.

The parts and service sales force was expanded throughout the Province not only to sell support services but also to develop new marketing opportunities. Recent supply item introductions by Caterpillar, such as batteries and high pressure hydraulic hose and fittings, have considerable application outside our traditional marketing areas. Also our own new services provide added potential which we are now exploring with significant success.

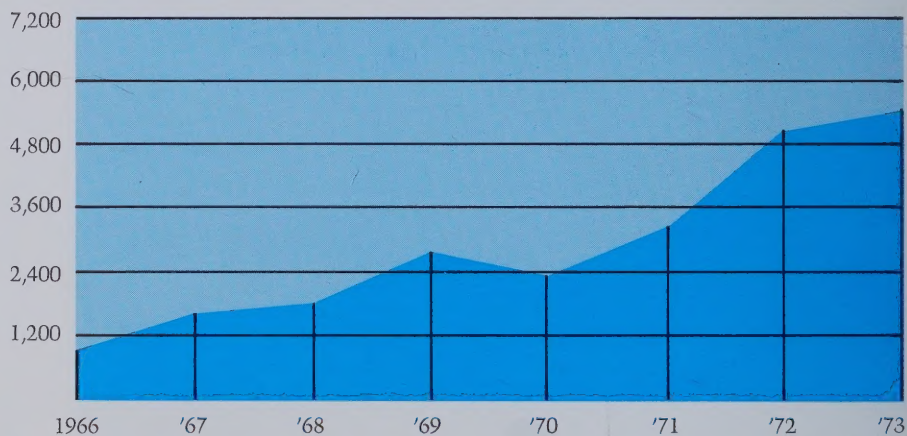


Thirty-eight employees are enrolled in the Province's first parts apprenticeship program which started in September.

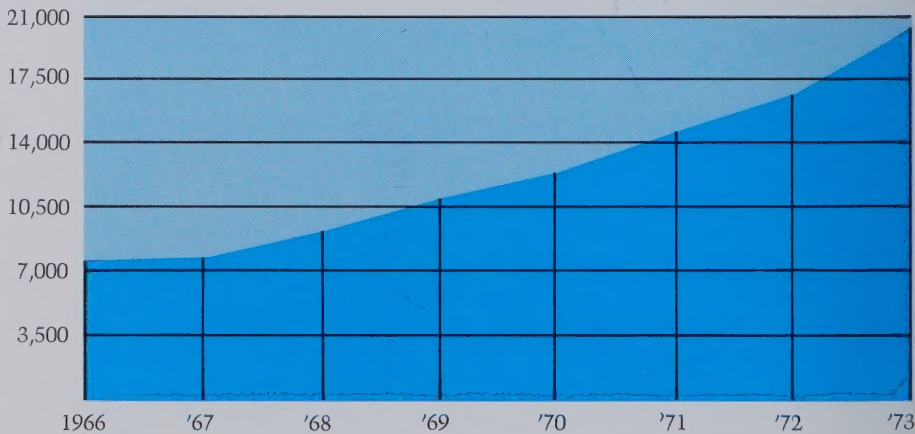
REVENUE
in thousands of dollars



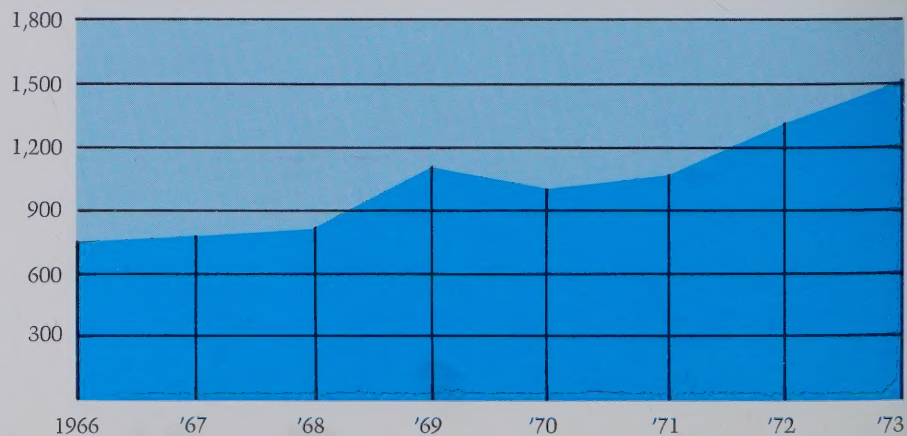
NET INCOME
in thousands of dollars



INVESTMENT IN FIXED ASSETS—AT COST
in thousands of dollars



AVERAGE NUMBER OF EMPLOYEES



Highlights of Operations

	1973	1972	1971	1970	1969	1968	1967	1966
	(thousands of dollars)							
Revenue	\$148,157	\$126,622	\$91,707	\$74,092	\$78,584	\$55,413	\$49,508	\$45,514
Income before income taxes	11,241	9,732	6,422	4,867	5,671	3,838	3,159	1,829
Net income	5,475	5,084	3,286	2,384	2,772	1,812	1,681	967
Capital expenditures	3,533	2,552	1,786	1,630	1,985	1,671	412	847
Net income per share*	\$ 1.40	\$ 1.31	\$.84	\$.61	\$.71	\$.47	\$.43	\$.25
Income before income taxes as a percentage of revenue ..	7.6%	7.7%	7.0%	6.6%	7.2%	6.9%	6.4%	4.0%
Net income as a percentage of revenue ..	3.7%	4.0%	3.6%	3.2%	3.5%	3.3%	3.4%	2.1%
Number of employees at year end	1,577	1,373	1,180	1,011	1,207	894	765	750

*Net income per share has been calculated on the basis of the weighted average number of Common Shares outstanding during the year. Net income per share for 1972 and prior years has been calculated on the basis of the weighted average number of Common Shares outstanding during 1972, after making appropriate adjustments for the subdivision of Common Shares during that year.

Consolidated Balance Sheets

December 31, 1973 and 1972

ASSETS	1973	1972
CURRENT ASSETS:		
Cash	\$ 14,320	\$ 21,376
Notes and accounts receivable (<i>Note 5</i>)—		
Instalment notes, at principal balances, including		
\$8,235,888 due after one year (\$5,043,366 in 1972)	18,423,506	9,650,146
Accounts receivable	19,538,411	14,469,147
Inventories (<i>Notes 2 and 6</i>)—		
Equipment	20,622,803	19,594,912
Parts and supplies	17,183,362	11,098,987
Total current assets	<u>\$ 75,782,402</u>	<u>\$54,834,568</u>
EQUIPMENT LEASED TO CUSTOMERS, at cost less accumulated		
depreciation of \$7,858,171 (\$7,126,470 in 1972) (<i>Notes 3, 5 and 6</i>) ...	<u>\$ 15,022,420</u>	<u>\$13,366,172</u>
FIXED ASSETS, at cost (<i>Notes 4, 5 and 6</i>):		
Land	\$ 1,360,142	\$ 1,192,404
Buildings and equipment	18,188,948	15,466,764
	<u>\$ 19,549,090</u>	<u>\$16,659,168</u>
Less—Accumulated depreciation	7,737,578	6,682,721
	<u>\$ 11,811,512</u>	<u>\$ 9,976,447</u>
OTHER ASSETS, at cost	\$ 60,461	\$ 54,656
Approved on behalf of the Board:		
"W. M. YOUNG," Director		
"V. K. SOOD," Director		
	<u>\$102,676,795</u>	<u>\$78,231,843</u>

Finning Tractor & Equipment Company Limited
Consolidated Statements of Income
for the years ended December 31, 1973 and 1972
Consolidated Statements of Source and Application of Funds
for the years ended December 31, 1973 and 1972

LIABILITIES	1973	1972
CURRENT LIABILITIES:		
Notes payable—		
Bank (Note 5)	\$ 48,239,913	\$28,386,385
Other	—	121,705
Accounts payable and accruals (Note 7)	11,828,095	11,145,038
Income taxes payable	—	1,460,395
Deferred income taxes—current portion (Note 8)	3,186,685	2,443,681
Current portion of long-term debt	<u>642,916</u>	<u>665,981</u>
Total current liabilities	\$ 63,897,609	\$44,223,185
 LONG-TERM DEBT, net of current portion (Note 6)	 \$ 1,713,086	 \$ 2,460,660
 DEFERRED INCOME TAXES (Note 8)	 \$ 4,353,116	 \$ 3,534,547
 SHAREHOLDERS' EQUITY:		
Share capital (Notes 9 and 10)	\$ 8,790,244	\$ 8,626,534
Retained earnings (Note 11)—		
Balance, beginning of year	\$ 19,386,917	\$14,886,836
Net income	5,474,914	5,083,553
Dividends paid	<u>(939,091)</u>	<u>(583,472)</u>
Balance, end of year	\$ 23,922,740	\$19,386,917
	\$ 32,712,984	\$28,013,451
	<u>\$102,676,795</u>	<u>\$78,231,843</u>

	1973	1972
REVENUE	\$148,157,382	\$126,621,677
 EXPENSES (Notes 12 and 13):		
Cost of sales and selling expenses	\$125,233,981	\$107,756,305
General and administrative	8,411,933	7,006,021
Interest—Current	3,089,455	1,796,730
Long-term	<u>180,675</u>	<u>330,854</u>
	\$136,916,044	\$116,889,910
Income before income taxes	\$ 11,241,338	\$ 9,731,767
 PROVISION FOR INCOME TAXES	 5,766,424	 4,648,214
Net income	<u>\$ 5,474,914</u>	<u>\$ 5,083,553</u>
 NET INCOME PER SHARE (Note 14)	 \$ 1.40	 \$ 1.31

	1973	1972
SOURCE OF FUNDS:		
From operations—		
Net income	\$ 5,474,914	\$ 5,083,553
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	3,874,820	3,807,386
Fixed assets	1,260,714	1,089,042
Deferred income taxes	<u>818,569</u>	<u>693,247</u>
Total funds from operations	\$11,429,017	\$10,673,228
Sale of fixed assets	437,626	94,649
Long-term debt	1,505,874	—
Issue of share capital	<u>163,710</u>	<u>61,647</u>
	\$13,536,227	\$10,829,524
 APPLICATION OF FUNDS:		
Additions—		
Equipment leased to customers, net of disposals	\$ 5,531,068	\$ 6,274,180
Fixed assets	3,533,405	2,551,903
Payment of long-term debt	2,253,448	1,403,352
Dividends paid	939,091	583,472
Other	<u>5,805</u>	<u>5,861</u>
	\$12,262,817	\$10,818,768
Increase in working capital	\$ 1,273,410	\$ 10,756
WORKING CAPITAL, BEGINNING OF YEAR (Note 8)	10,611,383	10,600,627
WORKING CAPITAL, END OF YEAR (Note 8)	<u>\$11,884,793</u>	<u>\$10,611,383</u>

Notes to Consolidated Financial Statements

December 31, 1973

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of subsidiary companies, all of which are wholly-owned. They are:

- Airpro Equipment Ltd. (formerly G. M. Philpott Co. Ltd.), operating as Finning Air Products Division and Air Products (Alberta)
- Cancal Properties Ltd.
- Finning Air Products Ltd. (formerly G. M. P. Products Ltd.), a wholly-owned subsidiary of Airpro Equipment Ltd.
- Finning Finance Limited
- Finning Tractor (1959) Ltd.

2. INVENTORIES

Inventories have been valued at the lower of cost or market value. Cost has been determined on a specific item, actual cost basis for equipment and a first-in, first-out basis for parts and supplies. Net realizable value has been used to determine market value.

3. EQUIPMENT LEASED TO CUSTOMERS

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

4. FIXED ASSETS

Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
Aircraft	20%
General equipment	20%
Automotive equipment	30%

5. NOTES PAYABLE—BANK

At December 31, 1973, notes payable to the bank totalled \$48,239,913; represented by \$23,318,807 in notes payable on demand and \$24,921,106 in banker's acceptances payable at various dates within 18 days after December 31, 1973. At December 31, 1972, this amount was represented by \$13,994,230 in notes payable on demand and \$14,392,155 in banker's acceptances payable at various dates within 75 days after December 31, 1972. Notes payable to the bank are secured by the pledge of Demand Debentures of the Company in the principal amount of \$10,000,000, ranking next in priority to the First Mortgage Debentures; by an assignment of fire insurance; a general assignment of book debts; a pledge of notes receivable; a pledge of certain equipment rental agreements; and by the guarantee of Finning Tractor (1959) Ltd. The Demand Debentures are secured on the same basis as the First Mortgage Debentures.

6. LONG-TERM DEBT	1973	1972
First Mortgage Debentures	\$2,000,000	\$2,600,000
Other first mortgages	272,850	437,156
Other secured agreements	83,152	89,485
	\$2,356,002	\$3,126,641
Less—		
Current portion included in current liabilities	642,916	665,981
	\$1,713,086	\$2,460,660

The First Mortgage Debentures bear interest at 7¼% and are payable at \$600,000 per annum in 1974 and 1975 with the balance due in 1976. They are secured by a trust deed which constitutes a first fixed charge on substantially all the fixed assets of the Company and all the shares of its subsidiary, Finning Tractor (1959) Ltd., and by a floating charge on the undertaking, property and assets of the Company and Finning Tractor (1959) Ltd. They are guaranteed by Finning Tractor (1959) Ltd.

Other first mortgages on certain land and buildings bear interest from 7% to 10% per annum. Combined annual payments, including principal and interest, total \$48,160. Maturity dates of the various first mortgages range from 1974 to 1995.

Other secured agreements bear interest from 6% to 8% per annum. Combined annual principal payments total \$13,702 and these agreements mature in 1978 and 1982 excepting a loan against the cash surrender value of a life insurance policy which has no specific repayment terms.

7. CURRENCY CONVERSION

Accounts payable and accruals include \$3,943,365 (\$4,861,684 at December 31, 1972) payable in U.S. currency which has been converted to Canadian funds at year-end exchange rates.

8. DEFERRED INCOME TAXES

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from accounting policies. The current portion of deferred income taxes relates to the following current assets:

- Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes depreciation is recorded on the basis of rentals billed while for income tax purposes maximum capital cost allowance is claimed.
- Notes receivable, which include conditional sales contracts relating to equipment sales. For accounting purposes the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current portion of deferred income taxes relates to Equipment Leased to Customers on which depreciation

for accounting purposes is recorded as explained in Note 3. For income tax purposes maximum capital cost allowance is claimed.

The 1972 figures have been restated to conform with the 1973 presentation of classifying, as a current liability, that portion of deferred income taxes related to current assets.

9. SHARE CAPITAL

By certificate of the Registrar of Companies of British Columbia dated October 3, 1972, the authorized and outstanding Common Shares of the Company were subdivided on a two for one basis. The Company is authorized to issue 10,000,000 Common Shares without nominal or par value.

The changes in the outstanding share capital during 1973 were as follows:

	Number of Common Shares	Dollars
Outstanding, December 31, 1972	3,897,670	\$8,626,534
Issued for cash on exercise of stock options	25,680	163,710
Outstanding, December 31, 1973	3,923,350	\$8,790,244

10. STOCK OPTIONS

In 1969 an employee stock option plan reserved 194,400 Common Shares of the Company (after giving effect to the two for one subdivision in 1972) for issue under options granted to full-time officers and employees.

The directors granted options to purchase 84,000 of the 194,400 Common Shares to 17 employees. Of these, six are directors or senior officers who received options to purchase in the aggregate 54,000 Common Shares and 11 are other employees who received options to purchase in the aggregate 30,000 Common Shares. Options are exercisable at \$6.375 per share on a 20% cumulative basis during each of the five consecutive 12-month periods which commenced May 1, 1970 and expire April 30, 1975. All options terminate on cessation of employment. As at December 31, 1973, options on 35,350 Common Shares had been exercised. Options on 600 Common Shares had terminated on cessation of employment and these shares once again became reserved under the plan. There are 48,050 Common Shares subject to unexercised options.

Options on the remaining 111,000 Common Shares reserved under the plan may be granted at prices not less than 90% of the higher of the last reported sale price of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

11. RESTRICTIONS UNDER DEBENTURE TRUST DEEDS

The trust deeds securing the Demand Debentures referred to in Note 5 and the First Mortgage Debentures referred to in Note 6 contain certain restrictions. These include provisions that the Company will not permit net working capital to be

less than \$12,500,000 and that the Company and any subsidiary will not, without the consent of the holder of the debentures, declare or pay any dividend which would reduce net working capital below \$12,500,000.

Net working capital is defined under the trust deeds to include the working capital as reflected in the consolidated balance sheets together with Equipment Leased to Customers and minor items. The defined net working capital amounted to \$32,488,521 at December 31, 1973 and \$27,479,387 at December 31, 1972. Accordingly, \$19,988,521 of retained earnings was not restricted at December 31, 1973 and \$14,979,387 was not restricted at December 31, 1972.

12. PENSION PLAN

The Company retains an independent consultant to prepare actuarial reports on the employee pension plan every three years. The last report, prepared as of December 31, 1971, indicated unfunded past service costs of \$970,000, after taking into account projected future remuneration of employees. This past service cost is being amortized over a period of 20 years which commenced in 1972.

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers during 1973 was \$488,835 and during 1972, \$419,275.

14. NET INCOME PER SHARE

Net income per share has been calculated on the following weighted average numbers of Common Shares outstanding:

1973	1972
3,913,240	3,890,672

The dilution of net income per share which would occur if the unexercised options referred to in Note 10 are exercised is relatively insignificant.

15. COMMITMENTS

The Company has entered into agreements for the construction of equipment to be leased to customers at a total cost of \$2,736,275, of which \$547,255 had been paid to December 31, 1973.

The Company is committed to purchase \$7,000,000 in U.S. funds by May 8, 1974 at exchange rates between \$.9928 and \$.9932 Canadian per \$1 U.S.

Auditors' Report

TO THE SHAREHOLDERS OF FINNING TRACTOR & EQUIPMENT COMPANY LIMITED:

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1973 and 1972, and the related consolidated statements of income and source and application of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiaries as of December 31, 1973 and 1972, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

February 5, 1974, Vancouver, Canada

ARTHUR ANDERSEN & CO.,
Chartered Accountants

Finning Tractor & Equipment Company Limited

HEAD OFFICE

555 Great Northern Way,
Vancouver, Canada

AUDITORS

Arthur Andersen & Co.,
Chartered Accountants,
Vancouver, Canada

SOLICITORS

Ladner Downs,
Barnisters and Solicitors.
Vancouver, Canada

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver, Calgary, Winnipeg, Toronto
and Montreal, Canada

STOCK EXCHANGES

Vancouver Stock Exchange
The Toronto Stock Exchange

All divisions showed steady growth and a generally improved share of market.

The Air Products Division moved into new and larger facilities. Revenue showed a marked increase, partly due to good penetration into the forest industry with the Tank Drill, a mobile drilling unit designed and assembled in our own shops.

The Engine Division, reorganized in mid-year, was affected to some degree by short supply all year long but nevertheless, the division showed growth in all phases of operation.

An expanding offshoot of the engine business is TEPS, the Total Engine Product Support program. Caterpillar's increasing success in supplying engines directly to the major truck manufacturers, particularly for on-highway vehicles, has resulted in a larger parts and service market.

There are now more than 30 TEPS dealers in the Province, mainly automotive dealers, and our wholesaling of parts and remanufactured engines to them has sharply increased. The TEPS program is another example of a profit opportunity where we are not the seller of the prime product.

The Lift Truck & Systems Division and the Crane & Excavator Division enjoyed a more favourable supply situation and achieved a substantial improvement in market share.

The Light Industrial Division was organized in 1969 to specialize in marketing the small end of the Caterpillar line. Specialization in this segment of the market has resulted in increased sales volume.

The new 65 horsepower machines which were introduced late in 1973 are smaller than other Caterpillar products and open up a new, broad market. The 910 Wheel Loader, D3 Tractor and 931 Track Loader are used in light utility work, installation of sewer and water services, landscaping, loading and handling applications. A number of 910s were sold in the last quarter and all three models will be merchandised in 1974.

During the year the division expanded its organization by setting up a service shop for new equipment assembly as well as repair and overhaul of small machines in the Lower Mainland area.

Division Review



Initial deliveries were made of Caterpillar's first hydraulic excavator, forerunner of a complete excavator line.

Typical of new fishing boats launched during year is this sleek 65-foot packer powered by 365 horsepower Cat diesel.



Grove hydraulic cranes continued to find a ready market in handling building materials and other lifting jobs.





Brisk sales of the Caterpillar 910 Wheel Loader and wide customer interest in the D3 Tractor and 931 Track Loader predict a bright future for Caterpillar's new line of 65 horsepower machines. The first 910s went to work in a variety of applications around the Province during the last quarter while initial stocks of the D3 and 931 were received at year end.

A new design Caterpillar lift truck series in the 10,000 to 30,000-pound range helped to increase the Lift Truck & Systems Division's share of market.



Northern Development

Annual snowfall of some 750 inches in Stewart area makes clearing of this mine haul road a 24 hour a day job. Specially-equipped Caterpillar machines work from October to May keeping road open.



Operations in the Mackenzie Valley area of the Northwest Territories continued to be encouraging as exploration activity for oil and natural gas increased. Road and rail links are being pushed northward from British Columbia and when completed will increase trade and traffic. Inuvik, 120 miles from the Arctic Circle, remains the centre of our NWT and Arctic Islands operations.

Terrace and the vast area north of Kitimat and west of Prince George came into the headlines with announcement of a proposed 25 year development involving public and private funds.

While specific details have yet to be announced, the program is expected to include construction of three new townsites, five sawmills, a pulp mill, development of known mineral resources and a network of highway and railway connections, including a link with the Yukon. The federal government would participate through DREE, the Department of Regional Economic Expansion.

The country has a wealth of natural resources. Five known orebodies contain millions of tons of copper and the potential production of copper ore has raised the possibility of a smelter at Kitimat.

Large coal deposits have been established and prospectors have been busily staking claims in adjacent Yukon ground. The many acres of timberland could support new mill complexes for production of lumber and chips. The only major power development is at Kemano but there is additional hydro potential in the area.

Major priority at present is the development of transportation and communications. Highway plans call for upgrading of present provincial east-west routes; improvement of the Stewart-Cassiar Highway, and completion of several links with the Northwest Territories. Projected rail links include further extensions of the British Columbia Railway and connections between the BCR and the Canadian National Railway out of Terrace. Initial activity, which could start in 1974, will probably be one or more of these road and rail projects.

Our Terrace operation will continue to play a major role in these developments. Since 1971, our volume at Terrace has doubled and the number of employees has grown from 34 to 60. The 10,000 square foot expansion of parts and service facilities completed at year end will enable us to meet increased requirements under the northern development proposals.

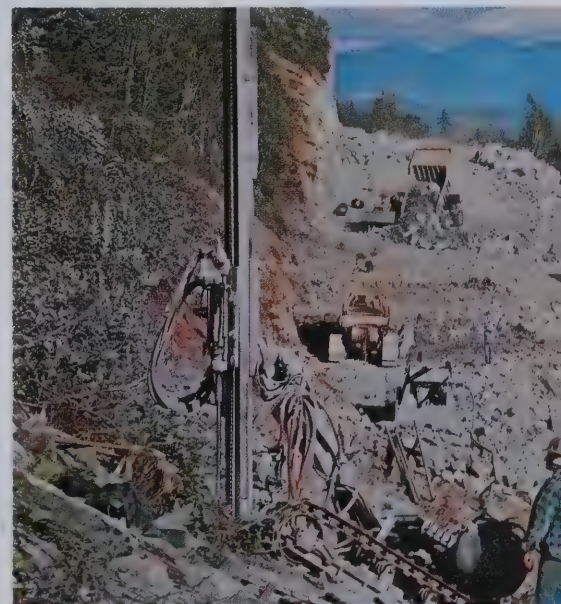


A fleet of 18 Caterpillar machines was used to rebuild a twisting 11.6 mile stretch of the Yellowhead Highway between Terrace and Prince Rupert. The proposed northern development program will see greatly accelerated construction of roads and rail lines.



Logging is a year round operation in Terrace using Coastal techniques in summer; Interior methods in winter.

Part of a 10 unit spread, these Gardner-Denver drills prepare blast pattern on Yellowhead Highway reconstruction.



Personnel and Operations

The number of employees rose from 1,373 to 1,577 and, despite a lack of skilled manpower in all industries, we were able to obtain most of the qualified people required. Total wages, salaries and benefits paid to employees in 1973 was \$22,261,448 and in 1972 was \$16,852,128.

The year was a harmonious one in management-labour relations; the current contract with the International Association of Machinists and Aerospace Workers expires on November 15, 1974.

The Company's major operations throughout British Columbia and the Mackenzie Valley region of the Northwest Territories are located in Cranbrook, Dawson Creek, Houston, Inuvik, Kamloops, Nelson, Prince George, Terrace, Vancouver, Vernon and Williams Lake. Satellite parts and service depots are located at Campbell River, Chilliwack, Fort Nelson, Golden, Kootenay Canal, Mackenzie, Nanaimo, Port McNeill, Quesnel, Sparwood and Victoria. In addition, service representatives are resident in some 18 other communities.

New 18,000 square foot facility in Vancouver, opened in May, gives Air Products Division three times the space of former premises.





Directors, Officers and Management Group

DIRECTORS

H. CLARK BENTALL
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Construction Company Limited,
Vancouver*

ROBERT C. BISS*
*Vice President, Finning Tractor &
Equipment Company Limited,
Vancouver*

JOHN D. FRAZEE*
*Vice President, Finning Tractor &
Equipment Company Limited,
Vancouver*

JOHN C. GILMER
*President and Chief Executive
Officer, CP Air, Vancouver*

THOMAS E. LADNER, Q.C.
*Partner, Ladner Downs,
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*President and Chief Operating
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VINOD K. SOOD*
*Vice President, Finning Tractor &
Equipment Company Limited,
Vancouver*

W. MAURICE YOUNG*
*Chairman of the Board and Chief
Executive Officer, Finning Tractor &
Equipment Company Limited,
Vancouver*

*Member, Executive Committee

OFFICERS

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*President and
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Vice President Parts and Service

JOHN D. FRAZEE
Vice President Sales

VINOD K. SOOD
Vice President Finance

RONALD W. PARK
Secretary

OPERATIONS, DIVISION AND STAFF MANAGERS

W. F. Holmes, *Interior Operations*

D. W. Lord, *Coastal Operations*

R. W. Stewart, *Mining &
Major Accounts*

J. J. Blunt, *Houston*

C. A. Cederberg, *Terrace*

P. Clarke, *Inuvik*

G. M. Correale, *Nelson*

J. D. Desimone, *Dawson Creek*

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G. R. Kincade, *Prince George*

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P. R. Basaraba, *Air Products Division*

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A. E. Holden, *Light Industrial Division*

M. W. Kooting, *Crane & Excavator
Division, Lift Truck & Systems Division*

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G. F. Kiss, *General Service*

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B. I. Davis, *Vancouver Service*

T. R. Motteler, *Parts & Service Sales*

A. Coe, *Sales Development*

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J. J. Mulvaney, *Used Equipment
Administration*

L. R. Broderick, *Leasing*

D. L. Christie, *Administration*

C. A. Harris, *Data Processing*

H. H. Lunow, *Purchasing*

L. E. Norlander, *Accounting*

R. S. Scott, *Credit*

A. M. Steele, *Audit & Systems*

P. G. von der Porten, *Budgets*

Successful trial use of a helicopter for Coastal customer calls in the last half of 1972 prompted purchase of this four-passenger "Gazelle" which has greater altitude, speed and range capability.



To mark its 40th anniversary as a Caterpillar dealership, the company donated the Finning Sea Otter Pool complex to the Vancouver Public Aquarium. Speaking at the formal opening of the Pool in May, Board Chairman W. Maurice Young stated: "We feel that this gift is a most appropriate way to observe the occasion and to express our gratitude to the people of British Columbia."

J. G. Montag, Vice President, Caterpillar Tractor Co., in congratulating the Company on its 40th anniversary, wrote: "We've appreciated these years of association which have marked some eras of rapid progress. Not only the progress was satisfying but also the friendly associations we've had have been ones which we hope you and your people have enjoyed as much as we have. I'm sure the 50th anniversary as the Caterpillar Dealer will mark still another benchmark in the path of progress of the Finning organization."

The Company and its employees again gave generous support to various charitable and community organizations. Chief among these throughout the Province was the United Appeal which, in Greater Vancouver, was headed by Mr. Young as Fund Chairman.



FINNING TRACTOR & EQUIPMENT COMPANY LIMITED